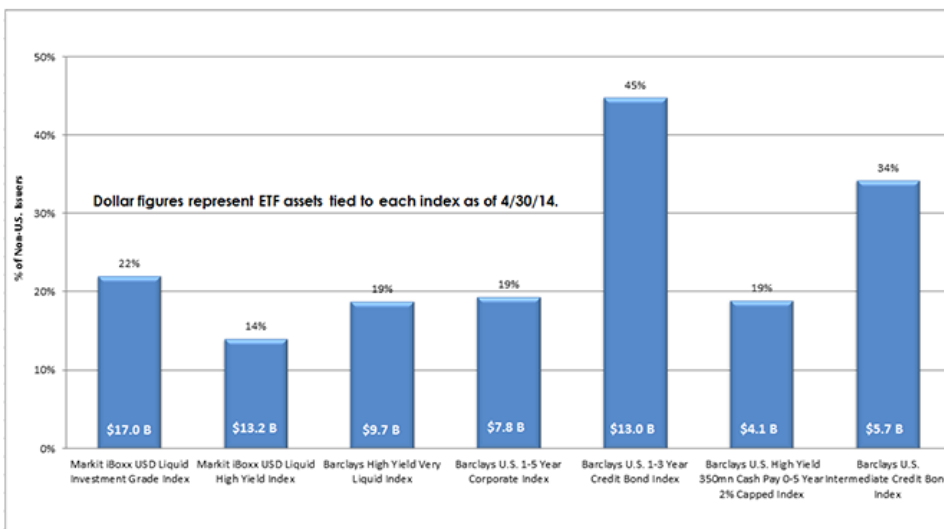


# WHERE IN THE WORLD DOES YOUR U.S. BOND ETF INVEST?

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For most fixed income investors today, corporate bonds may represent a significant portion of their core bond portfolios. As exchange-traded funds (ETFs) have grown in popularity over the last decade, index-based [corporate bond](#) ETFs have become a popular means of obtaining exposure to the asset class. However, we think many investors would be surprised to realize just how much exposure their “plain vanilla” bond portfolio has to non-U.S. issuers. In the table below, we show that a sizable portion of the assets within the largest U.S. fixed income strategies are invested in companies outside the U.S. While we certainly subscribe to a global approach to investing, our point is not that these positions are risky, but rather it seems inconsistent with how investors tend to allocate the exposures in their equity portfolios.<sup>1</sup> Investors would never think of allocations to a European or Japanese equity (let alone one in the emerging markets) the same way they think of a U.S. company. Yet the same [fundamentals](#) that drive equity valuations can also be critical for prudent bond investing. Why should investors be agnostic to geography when making decisions in their fixed income portfolios? **Non-**

## U.S. Exposure in the Most Popular Corporate Bond Indexes



Sources: Markit, Barclays, as of 4/30/14. You cannot invest directly in an index. Subject to change.

*For definitions of terms and*

*Indexes in the chart, please visit our [glossary](#).* In our view, they shouldn't. Through a potentially troublesome combination of low interest rates, narrowing [credit spreads](#) and industrial [releveraging](#), blindly lending companies around the world money could be a less-than-prudent approach. Of the nearly \$71 billion in assets currently benchmarked against the Indexes above, 25%, or \$17.5 billion, is invested in companies and governments outside of the United States.<sup>2</sup> With a wide array of potential opportunities (and pitfalls) cropping up in economies around the world, we believe investors should be conscious of the risks they are taking and start to think strategically about their corporate bond allocations. Taking this a step further, an [active](#) approach to fixed income can potentially benefit investors by drawing on the expertise of a portfolio management team whose sole focus is to identify which risks are worth taking. At the same time, it may be possible that a passive approach can outperform in certain market scenarios. Although there are no guarantees in investing, actively managed ETFs publish holdings daily so you always know what you hold. One way we believe that the [WisdomTree Strategic Corporate Bond Fund\\* \(CRDT\)](#) can potentially add value to investors' portfolios is by striking a balance based on fundamentals, not only between credit quality and corporate sectors, but also

across geographic exposures. In much the same way that investors seek to take advantage of comparatively attractive opportunities in foreign equities, CRDT has a broad mandate to invest in the U.S. as well as around the world. \*Formerly WisdomTree Global Corporate Bond Fund (GLCB). <sup>1</sup>Source: Kenneth R. French and James M. Poterba, "Investor Diversification and International Equity Markets," National Bureau of Economic Research, 1991. <sup>2</sup>Sources: WisdomTree, Markit, Barclays, as of 4/30/14.

#### Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall, income may decline. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. Unlike typical exchange-traded funds, there is no index that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objective will depend on the effectiveness of the portfolio manager. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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You cannot invest directly in an index.

## DEFINITIONS

**Corporate Bonds** : a debt security issued by a corporation.

**Fundamentals** : Attributes related to a company's actual operations and production as opposed to changes in share price.

**Credit spread** : The portion of a bond's yield that compensates investors for taking credit risk.

**Active** : Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.